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Sessional Committee I

DRAFT REPORT OF SESSIONAL COMMITTEE I

Rapporteur: Mr. Ricardo Babul (Chile)

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INTRODUCTION

(i) At its 782nd (opening) plenary meeting, on 11 March 1991, the Trade and Development Board decided to establish a sessional committee of the whole (Sessional Committee I) to consider and report on agenda item 2.

(ii) At its 1st meeting, on 11 and 12 March 1991, Sessional Committee I elected its Bureau as follows:

Chairman: Mr Martin Hecker (Germany)

Vice-Chairman-cum-Rapporteur: Mr Ricardo Babul (Chile)

(iii) In the course of the session, Sessional Committee I held ... formal meetings. This report gives an account of the work of the Committee in those meetings.

Chapter ...

PROTECTIONISM AND STRUCTURAL ADJUSTMENT AND, IN CONJUNCTION THEREWITH, OUTCOME OF THE URUGUAY ROUND ON DEVELOPMENT AND ISSUES OF PARTICULAR CONCERN TO THE DEVELOPING COUNTRIES, IN ACCORDANCE WITH PARAGRAPH 105 (8) OF THE FINAL ACT OF UNCTAD VII

(Agenda item 2)

1. For its consideration of agenda item 2, the Board had before it the following documents:

- Problems of protectionism and structural adjustment (TD/B/1282) - report by the UNCTAD secretariat;
- Idem: Statistical and information annex (TD/B/1282/Add.1) (English only);
- Information provided by States members of UNCTAD for the annual review by the Board on protectionism and structural adjustment - note by the UNCTAD secretariat (TD/B/1283 and Add.1 and 2) (English and French only);
- Costs and consequences of non-tariff measures which adversely affect exports of developing countries - report by the UNCTAD secretariat (TD/B/1284);
- Developments and issues in the Uruguay Round of particular concern to developing countries - note by the UNCTAD secretariat (TD/B(XXXVII)/CRP.5 and Corr.1).

Consideration in Sessional Committee I

2. The Director and Associate Co-ordinator, International Trade Programmes said that it was important to ensure that the impetus which the rapid growth in earlier periods had given to the adoption of forward-looking policies to deal with protectionism and structural adjustment issues be sustained, notwithstanding the deceleration in the output, employment growth and trade volumes witnessed in 1990 and forecast for 1991. Although recourse to trade restrictions continued without noticeable relief, several specific instances of trade actions taken in 1990 provided positive evidence of the willingness of governments to respond to the needs of countries, including those in Eastern Europe. These countries, which had adopted far-reaching and often painful measures to integrate their economies in the international monetary and trading systems, had benefited from improved conditions of access in Western Europe and the United States.

3. As for developing countries, available evidence suggested that most of the restrictions which had existed before the launching of the Uruguay Round were still in force at the end of 1990. The share of trade covered by such restrictions had not diminished to any significant extent: key areas of export interest to developing countries - particularly textiles and clothing, agriculture, tropical and resource-based products and certain categories of manufactures - continued to face a variety of trade-distorting measures in the major markets. The consequences of these measures against developing countries imposed heavy costs all round. In developed countries they had the effect of protecting inefficient sectors, taxing consumers and limiting structural adaptation, while in developing countries that were seeking to diversify their productivity structures and trade patterns, they had the effect of retarding much needed investments in the sectors concerned and impeding the process of liberalizing their trade régimes.

4. He observed that the link between trade and environment had received considerable interest recently. With regard to market access aspects of the linkage and following on decision 384 (XXXVII) of the Trade and Development Board, the secretariat had recently revised the codification of NTMs with a view, inter alia, to identifying more accurately measures taken on environmental and other non-commercial grounds. The secretariat was increasing its efforts to collect information on environmental regulations: in this connection, it would be helpful if member States could furnish information on such regulations and on the corresponding product coverage in the Harmonized System nomenclature.

5. Referring to the fundamental systemic reforms taking place in Eastern Europe, he said that these reforms would certainly have implications for trade and economic co-operation with developing countries, although not all ramifications could as yet be identified with sufficient accuracy. One configuration could be the creation of new export markets for developing countries in Eastern Europe. Another corollary of the changes under way might be the intensification of competition between producers in Eastern Europe and the USSR and those in developing countries in the markets of the industrialized economies, in particular in Western Europe. The secretariat report (TD/B/1282) attempted to examine these two configurations.

6. Whatever the future course of events, no dramatic implications could be expected for the trade prospects of developing countries in the short term. Foreign exchange shortages and severe external indebtedness would, in the short run, restrict the capacity of countries in Eastern Europe to expand their imports significantly. Moreover, owing to considerable supply difficulties in the productive base of countries in Eastern Europe, it appeared unlikely that these economies would in the short term be able to generate exports which were large enough to replace exports from developing countries in world markets on a substantial scale.

7. There were indications of a growing realization among the developed market-economy countries of the unsustainable financial burden of their agricultural and industrial policies. However, this growing awareness had still to be translated into positive policy responses. More determined efforts were called for to promote positive adjustment leading to an improved allocation of productive resources. Such a process would enable the developed countries to take advantage of less expensive imports from developing countries, and to seize the new export and investment opportunities that this same process created. In the developing countries, industrial and export policies were normally designed in response to the need to improve and develop further the supply capacity of the productive base, rather than to restructure production sectors which had become uncompetitive. In this context, it was encouraging to note that, since the early 1980s, a growing number of developing countries had pursued policies aimed at increasing the openness of their economies. Such policies, judiciously dovetailed to the specific economic conditions and development objectives of individual countries, could make a significant contribution to developing the economic base and strengthening its international competitiveness. The success of national policies in the developing countries aimed at export expansion and diversification was, however, also dependent on the existence of favourable conditions in the international economic environment.

8. Turning to the Uruguay Round negotiations, he said that the period since the conclusion of the Trade Negotiating Committee at the ministerial level in December 1990 had helped focus attention on the dangers of letting the international trading system drift and thus permitting the resurgence of protectionist pressures. The period since December had also provided a fresh opportunity to Governments to consider - in a relatively detached way - the

shape of the final package and the desirability of arriving at a consensus which reflected the diverse concerns and priorities of the international trading community. The extension provided a further opportunity to ensure that the balanced outcome sought by all participants in the MTNs was in fact realized.

9. He recalled that, throughout the negotiations, developing countries had accorded priority to obtaining more liberal and more secure conditions of market access for their products, seeking specific concessions with respect to tariffs and non-tariff measures and strengthening multilateral rules, principles and disciplines to reduce the possibility of restrictions on or harassment of their trade. In return, many developing countries had contributed significantly to achieving the Round's objectives by implementing unilateral trade liberalization measures and acceding to the General Agreement on more strict terms, in particular the binding of their tariff duties. He added that the attainment of a balanced outcome, which everyone agreed must take into account the interests of developing countries, should include the following:

- A package of concessions on the market access issues, including real opportunities for expanding developing-country exports. Developing countries should receive credit for their unilateral trade liberalization measures;
- An agreed programme for the reintegration of trade in textiles and clothing into the GATT;
- A comprehensive reform of trade in agriculture, which would provide all countries with improved and secure access to markets for their agricultural exports, while containing specific and operational provisions which recognized the special role of agriculture in the economies and societies of developing countries and which mitigated any negative impact on net food-importing developing countries;
- Fullest liberalization of trade in tropical and natural resource-based products;
- A comprehensive agreement on safeguards, which imparted stability and predictability to international trade, and which excluded the possibility of discriminatory action in violation of the unconditional most-favoured-nation principle;

- Strengthened rules governing the application of anti-dumping and countervailing measures which would eliminate the scope for harassment of developing-country exports;
- Agreement on TRIPs (trade-related aspects of intellectual property rights) should promote developing countries' access to technologies and the development of indigenous technology;
- A multilateral framework for trade in services based upon the most-favoured-nation treatment and universal coverage. Liberalization commitments by developing countries should be linked to progress in the development of their domestic service sectors.

10. The spokesman for the Group of 77 (India) stated that the annual review of protectionism and structural adjustment assumed a special significance this year at the threshold of a new decade with new challenges facing the world economy. Far-reaching structural changes were taking place in the area of international trade. These included the restructuring of East European economies and the move towards greater economic integration among the major trading entities such as the single EEC market, the United States-Canada free trade agreement and a similar possibility in the Asia Pacific region. The preparations for UNCTAD VIII also added a crucial dimension to this annual review as it would provide a thrust that would contribute to the success of the negotiations at the Conference.

11. The scenario of trade growth at the global and regional levels, as outlined in the UNCTAD report (TD/B/1282), spoke for itself. The downward trend in the growth of world trade was further accentuated in 1989 when its volume grew by only 7 per cent compared to 9 per cent in 1988. According to the estimate of the UNCTAD secretariat, this growth rate would further decelerate in 1990, perhaps to the level of 5 or 6 per cent.

12. At the regional level, the picture became still more disheartening with the negative impact falling largely on the weaker partners of the international community. The growth of exports from developing countries had declined to 6 per cent in 1989 from 9.6 per cent in 1988, while developed market-economy countries registered export growth of 7 per cent in 1989 compared to 8 per cent in 1988. This downturn had apparently continued in 1990, giving a cause for serious concern. The exports from Latin America and Africa had declined more drastically compared to exports from South and South-East Asia.

13. The contraction of world trade and output evidently suggested that the international trading environment had not shown any sign of improvement. The trends towards unilateralism and bilateralism in trade relations continued to intensify with a detrimental influence on the global trading environment, particularly on the weaker trading partners. It was indeed a positive move that no retaliatory action had been taken by one major industrialized trading country under its legislative provisions known as "Super 301". However, 23 countries remained on the "watchlists" in its "Special 301" provisions. Such a recourse to unilateralism eroded the credibility of the multilateral trading system.

14. The drift towards managed trade and market sharing arrangements had substantially distorted trade flows and placed developing countries in a more disadvantageous position. The trading system continued to be characterized by lopsided growth, progressive fragmentation, persistent instability and the lack of multilateral discipline. These factors accentuated the existing asymmetry between the developed and developing countries.

15. From the documents prepared by the secretariat it could be seen that a comparatively smaller number of trade-restricting measures had been introduced by the developed countries in 1990. This, however, did not give cause for any optimism because the basic situation on trade restrictions being faced by developing countries remained essentially the same. In fact, as was shown in table 1.6 of TD/B/1282/Add.1, the bulk of restrictions aimed at developing countries before the launching of the Uruguay Round continued to remain in force. Unfortunately, there was no progress towards implementation of rollback commitments for the benefit of developing countries. The analysis by the secretariat also brought out the fact that the share of trade covered by such restrictions had not diminished to any significant extent. Despite the high hopes generated by the Uruguay Round negotiations, 1990 had been marked by the absence of any meaningful liberalization measures in favour of developing countries. On the contrary they continue to be selectively discriminated against in the major export sectors such as textiles and clothing, agriculture, and other sectors where they had a comparative advantage.

16. Another worrying factor was the increasing trend in the use of anti-dumping and countervailing measures for protectionist purposes. Although the overall number of newly initiated anti-dumping and countervailing duty actions had apparently not increased during the year under review, in most

countries the number of outstanding cases had not diminished to any significant extent. On the contrary there had been an increase in the major industrialized markets such as EEC and United States in the number of cases directed against developing countries. The disconcerting fact also remained that the number of investigations against developing countries had increased from 17 per cent in 1980 to over 40 per cent at the end of the decade, which had caused severe trade harassment and depression.

17. The analysis in document TD/B/1282 underlined the fact of persistent use of non-tariff measures against developing countries on a selective basis. This analysis revealed that there was relatively greater discrimination against imports from developing countries through the application of non-tariff measures than against imports from the developed market-economy countries. Also, these NTMs were imposed in those sectors where developing countries had acquired a competitive advantage, such as textiles and clothing, leather and footwear. The share of imports from developing countries adversely affected by NTMs was also high compared to other countries in agricultural raw materials and animal and vegetable oils.

18. Non-tariff measures applied against developing countries had been higher in relation to products with greater market penetration ratios. The trade coverage ratio of NTMs affecting the developing country non-fuel exports to developed countries had been as high as 22.4 per cent in 1990 and in certain crucial sectors as high as 40 to 70 per cent. Non-tariff measures had thus caused considerable trade losses, both in terms of market penetration and sustainability of market presence.

19. Voluntary export restraints, which were non-transparent and bilateral in nature, continued to be used as major policy instruments to protect domestic sectors and thus erode the dynamism of the international trading system. It was also a disconcerting fact that through the "grey area" measures of the multilateral trading system, the emerging competitive suppliers were denied market access. The Group of 77 was also concerned at the imposition of trade barriers on the pretext of environmental concerns. The Group believed that the establishment of environmental standards should take into account the broader developmental needs of developing countries.

20. The secretariat report (TD/B/1284) contained a useful analysis of the costs and consequences of non-tariff measures that adversely affected exports of developing countries. This report substantiated the discriminatory and

trade-damaging characteristics of NTMs. The Group of 77 hoped that the seretariat would continue through such analytic work in future to promote the understanding of high-cost and wide-ranging adverse consequences of NTMs on both the importing and exporting countries, so that the policy-makers were eventually motivated against pursuing such self-damaging measures.

21. The discriminatory trend against developing countries was equally evident with regard to tariff barriers. In some major trading countries, the tariff treatment of developing countries on the whole continued to be less favourable than that afforded to other developed countries. The new developments, such as free-trade agreements among developed market-economy countries and granting of preferential status to countries in Eastern Europe, had the potential of exacerbating the discriminatory disadvantages for developing countries and had added to the inequities between tariffs against developed and developing country exports in major markets. It was also a disconcerting fact that the incidence of tariff escalation was higher in relation to industrial products in which developing countries had, or were likely to have, comparative advantage. Ironically, this discouraged and penalized the efforts of developing countries towards industrialization and diversification of production and trade.

22. Turning to the problems of structural adjustment, he noted that no significant progress had been achieved in the developed countries in the adjustment to changing competitive positions over the past year. While the pace of structural adjustment had accelerated tremendously in the 1980s, there was still no convincing evidence that efforts on the part of developed countries to adjust to structural changes had reached a commensurate dimension. It was imperative that they undertake adjustment policies on a broad scale to ensure a smooth process of an efficient reallocation of factors of production in the direction of new areas having competitive edge. More often than not, Governments in the developed countries had succumbed to pressures from highly visible interest groups and had resisted structural changes and thus tried to protect inefficient and non-competitive sectors of production. As a consequence, the process of restructuring in the developed market-economy countries continued to be thwarted in such sectors as textiles and clothing, agriculture, consumer electronics, iron and steel, footwear etc. The export earnings of many developing countries were heavily - in some cases solely - dependent on one or two of these sectors. The policies of

developed countries towards imports of textiles and clothing had been most restrictive among all industrial sectors. Bilateral quotas and VERs within the MFA had increasingly affected individual countries and products as soon as such export capacities had emerged. GSP benefits in this sector were restricted through exclusions, ceilings and tariff quotas.

23. Agriculture was the other major sector on which developing countries were heavily dependent for export earnings and where formidable degrees of protectionism applied. The comprehensive details of trade-distorting factors in this sector were provided in paragraphs 67 to 81 of document TD/B/1282 and there was no need to go into details. Suffice it to say that the cost of agricultural support measures imposed on taxpayers and consumers in OECD countries amounted to roughly $US 251 billion in 1989, which gave an idea of the enormity of protectionism in this vital sector.

24. The developed countries would not gain in the long run by the perpetuation of their prevailing industrial structures. A dynamic process of change and adaptation involving a continuing shift of factors of production from less productive to more productive activities would enhance the resilience and growth of their economies and would transmit positive growth impulses to the world economy and for the development of developing countries. On the other hand, it should not be overlooked that new jobs were constantly being created in the developed countries as a result of their exports to the developing world and, in fact, such exports contributed significantly to economic growth in the industrialized countries. These exports were bound to suffer, if resistence to structural changes thwarted the export prospects of the developing countries and curtailed their foreign-exchange earnings and their capacity to purchase capital goods and other manufactures from the developed economies. The fact could not be over-emphasized that all countries had a common stake in promoting a process of structural adjustment and economic development which enhanced complementarity among economies and thereby accelerated the growth of international trade.

25. As the focus turned to review the trade actions in developing countries in the context of both protectionism and structural adjustments, he was glad to observe a contrasting picture which needed to be emulated. In the past year developing countries had further intensified their efforts to introduce autonomous trade liberalization measures. This attested to the fact that developing countries were making substantial contributions to the opening up

of markets and to trade expansion. They had persisted in these liberal measures despite the acute debt and balance-of-payments problems they faced as well as the enormous socio-economic and political cost they endured as a result. These efforts should be recognized by the international community and the best way to do so was to give developing countries credit in the negotiations for the substantial contributions they were making. The structural reforms and the trade liberalization measures in developing countries would be utterly defeated if external support was not forthcoming from the developed partners in terms of supportive policy actions, inter alia, to provide improved market access and resources both for alleviating the burden of these reforms and for trade financing.

26. The Group of 77 noted with interest the process of far-reaching economic reforms in the countries of Eastern Europe and the USSR, which would integrate these countries into the world economy and open up their markets. His Group believed that in the long run this process would have a rather positive effect on international trade. He also noted the trade liberalizing measures taken by OECD countries in favour of countries of Eastern Europe to facilitate this process. At the same time care had to be taken to ensure that preferential treatment and other similar measures did not undercut the trade prospects of developing countries whose needs and problems were equally daunting. At the moment, unfortunately, owing to various factors, the volume of East-South trade was diminishing. His Group was aware of the difficulties experienced by the countries in Eastern Europe during this transitional period. However, he believed that urgent measures should be taken to maintain and expand the trade flows between the countries in Eastern Europe and developing countries and to offset the trade diversion effect on developing countries. There was a need for an ad hoc intergovernmental mechanism in UNCTAD to review and promote trade and economic relations between developing countries and countries in Eastern Europe during this critical transitional period. This ad hoc mechanism could possibly be convened after UNCTAD VIII. Also, at the secretariat level, there was a need for an ad hoc focal point to co-ordinate activities and analyse the implications of economic reforms in Eastern Europe and of developments in East-West trade and economic relations on East-South trade and to identify possible means for promoting East-South trade for mutual benefit. The importance of technical assistance was crucial in this regard. The Working Party on the Medium-Term Plan and Programme Budget should take the necessary steps to ensure such a role for the UNCTAD secretariat within the existing resources.

27. He also noted with interest the background document concerning regional economic integration and free trade areas among developed countries, which had profound implications for the future prospects of developing-country trade. Such arrangements no doubt posed new challenges for developing countries. There was the promised trade-creation impact due to an increase in the GNP of those groupings which could provide expanded export opportunities. On the other hand, the possibilities of erosion of existing preferences and treatment enjoyed by these countries and of increased trade diversion among developed countries at the cost of the outsiders were very real. These arrangements would also bring about a fragmentation of international trading system which would accentuate the marginalization of developing countries.

28. The volatility of the exchange rates of the so-called leading currencies had wrought enormous damage to the trade and development profile of a large number of developing countries, compounded by highly speculative capital flows bearing little relationship to either trade financing or long-term investment needs. Such foot-loose financial resources had only succeeded in making the medium of exchange itself a tradable commodity, thus making a travesty of the medium of exchange itself. The only beneficiaries were the speculators and the institutions which facilitated their transactions. Industrialized countries might be able to cushion the cost of such structural adjustment as they found necessary to carry out at their own pace by means of exchange-rate fluctuations, but had they paused to assess the cumulative burden thus placed on developing economies for the past 15 years?

29. He observed that the LDCs' share in world exports had steadily declined from 1.4 per cent in the mid-1960s to its current level of a mere 0.3 per cent. The Programme of Action for the LDCs for the 1990s underscored the need for urgent steps to provide enhanced market access for all products of LDCs. It had been agreed that, within the framework of the Uruguay Round of MTNs, special attention should be given to the needs of LDCs by taking various measures such as advance implementation of MFN concessions, elimination or substantial reduction of tariffs and non-tariff barriers, the fullest possible liberalization in textiles, clothing, etc. The Programme of Action also recognized that there was scope for further improvement of GSP schemes to assist LDCs. His Group, therefore, urged the international community to ensure timely implementation of these measures.

30. In conclusion, he said that the multiple factors mentioned earlier in the context of protectionism and structural adjustment entailed enormous negative consequences for the economies of developing countries, particularly the ones which were heavily indebted and adversely affected by the recent crisis in the Middle East. At this critical juncture, it was imperative that urgent policy measures be taken to provide improved market access to these countries through the dismantling of protectionism and making timely structural adjustments. The other way to help them was to improve the GSP schemes with measures such as expansion of both the product and country coverage, deeper concessions, increased flexibility and simplification of rules of origin, exemption from quotas and ceilings, etc.

31. The spokeswoman for Group B (Switzerland) expressed the hope that the debate on this item would be constructive, and a useful step towards UNCTAD VIII. It was becoming increasingly difficult and probably inappropriate to limit a discussion on trade policies to the consideration of traditional trade measures. Indeed, the increasing interdependence of countries and of government policies was being accentuated by the globalization of economic activities, and held out the promise of further trade expansion in the future. The extent to which a single economy was integrated with other economies - neighbouring or more distant - could, through falling transaction costs, ease the process of shock absorption and enhance the opportunities to gain from trade and overall economic growth.

32. She noted that growth in world trade had been buoyant for several years in the 1980s and well in excess of overall growth rates. Now it was slowing down, but this fact should not be dramatized, as a strong upward trend could not continue indefinitely. As the world economic situation had become difficult, adjustments and reforms had faced more obstacles. Group B was aware of this problem, which was of crucial importance for developing countries, as well as for East and Central European countries. Indeed, her Group saw with appreciation that an increasing number of countries were shifting to a market economy, sometimes in a dramatic way. Everywhere, entrepreneurship, privatization, and the search for a new balance between the role of the State - certainly indispensable - and the private sector, were creating a new climate. Therefore, Group B intended to encourage developing countries to continue to apply market-based policies. It also wished to remind those who were not yet convinced of the value of such policies that, despite all possible set-backs, these policies were, in the experience of

Group B members, the best way towards sustained non-inflationary growth. It was therefore important to resist attempts to introduce protectionist measures that would be detrimental to the expansion of world trade and contrary to a sound market-oriented trading system.

33. The structural adjustment process went hand-in-hand with the liberalization process. In fact, impetus towards trade liberalization was at present also coming from countries whose past tradition had been to question liberal norms. It was those same countries which were undertaking successful structural reforms, as they went along with consistent macro-economic management policies. As for the OECD countries, they would continue to make efforts at home for structural adjustment. Her Group believed that market policies fostered structural adjustment endeavours and would contribute to the success of the Uruguay Round negotiations.

34. Turning to the Uruguay Round, she recalled that, at its previous session, the Board had underlined the importance of a timely and successful conclusion of the Round. Since then, a tremendous amount of work had been accomplished in these difficult negotiations, whose successful outcome the OECD Council at Ministerial level had qualified as "having the highest priority on the international economic agenda". However, the world community had not managed to conclude the Uruguay Round, as had been hoped, in December 1990, when it had not been possible to bridge the gap between the different positions on issues of fundamental importance for the future of the multilateral trading system. The weeks following the Brussels Ministerial Meeting had been characterized by uncertainty, doubts and risks, but it was now gratifying to see that the negotiations had been put "back on track". After intensive consultations, the Chairman of the TNC, Mr. Arthur Dunkel, had been able to inform participants in the Uruguay Round two weeks ago that "a basis for restarting the negotiations in all areas in which differences remain outstanding" existed and that an agenda for work in each of the negotiating areas was being developed. While work had thus resumed in Geneva, governments were in the process of examining their substantive positions, particularly in the most contentious areas of the Round, and of taking the necessary steps to allow for the continuation and speedy conclusion of the negotiating process. No new deadlines had been set, but the Uruguay Round should be concluded as soon as possible. The time available should be used efficiently and productively. Political and economic reality and international business life would not wait for an unduly prolonged process.

35. She added that the open multilateral trading system faced a combination of great opportunities and great challenges. The importance of strengthening and enlarging this system was underlined by several factors:

(a) After a long period of continuous strong economic growth, the prospects for the future global economic performance were more complex today. Macro-economic trends varied quite considerably, and in several countries recessionary tendencies, as well as external and internal imbalances, persisted. A less favourable outlook for global economic conditions also affected the prospects for international trade and investment, and particularly for smaller countries heavily dependent on exports.

(b) It was essential that the important progress made by developing and East and Central European countries in liberalizing their economic and trade policies continued, even in a temporarily less favourable global economic environment. Such autonomous liberalization could best be "secured" through the full integration of these countries into the contractual multilateral trading system.

(c) Both in developing and industrialized countries, difficult structural adjustment problems in sensitive and protected industries and markets needed to be solved, and some important reform efforts had been initiated. These reform processes towards more competition and freer trade should be made irreversible through a multilateral negotiating process and through binding of tariffs and consolidation of non-tariff measures in the GATT.

(d) Important and rapid developments in regional and bilateral arrangements were being witnessed in many parts of the world. As long as such arrangements were compatible with the multilateral trading system, they could play a useful and beneficial role in further liberalization of global trade. The objective must be to strive for complementarity of multilateral and regional integration and liberalization.

(e) A serious risk for the multilateral trading system was the pressure for unilateral measures that still existed in developed countries.
All these elements - and others could be added - pointed to the necessity of a successful outcome and speedy conclusion of the Uruguay Round. It should achieve significant global liberalization of trade by producing a coherent set of clear and enforceable rules and disciplines adapted to the new realities of world trade. A better integration of developing countries (and former centrally-planned economies) into the multilateral trading system under an

improved GATT was essential for the strengthening of an open world trading order. Everyone had to be prepared to make contributions to this collective exercise.

36. Referring to the necessary complementarity between the multilateral liberalization process and evolving regional arrangements, in the perspective of UNCTAD VIII, she said that efforts would be needed to secure a fruitful complementarity:

- on the part of Governments inside the groupings to keep these arrangements outward-looking;
- and also in the international context to ensure that integration arrangements operated within a multilateral framework and that a dialogue was fostered between those inside and those outside formal regional arrangements.

37. For outward-oriented trade policies to be successfully implemented, it was necessary to have good organization and administration of customs systems, in which field UNCTAD was doing useful work. The issues of structural adjustment, trade liberalization measures, and balance between public and private sectors came under the umbrella of national governance. The Caracas informal encounter, held in February 1991, had touched upon these topics and her Group would certainly deal with them again at the current session as well as during the whole process of preparation for UNCTAD VIII. Particular issues that might be discussed in the perspective of UNCTAD VIII would include:

- An approach to trade policies taking into account the globalization of markets, as well as the interactions between domestic and international policies, i.e. the interactions between traditional trade measures and domestic policies, to assess their complementarity;
- The study of experiences of transition towards market economies in terms of national governance, especially in view of the transition in developing countries and in Central and Eastern Europe;
- An assessment of current developments in trade between developing countries, and consideration of the potential for expansion of South-South trade - in particular through effective regional mechanisms of economic integration - as a contribution to economic transformation in developing countries;
- A study of the ways and means to contribute to an effective complementarity of multilateral and regional integration and liberalization.

38. Turning to the documentation prepared by the secretariat, she said that Group B noted with some concern that this documentation and analysis, while more comprehensive than in previous years, tended to focus mainly on the policies and performance of developed countries, instead of analysing as well the policies and performance of developing countries. Her Group would have preferred a wider coverage than the documentation offered. TD/B/1282, on the problems of protectionism and structural adjustment, would have benefited from a broader coverage. Her Group was concerned that the overall impression in the document assigned the responsibility for protectionist pressures almost exclusively to developed countries. Thus, the analysis in this respect did not fit the reality and its contribution to the debate on protectionism and structural adjustment was thereby limited. With reference to the last chapter in the document, on experiences of developing countries, her Group believed that developing countries ready to undertake macro- and micro-economic changes could gain considerable insight from the description of different types of reform experiences in different countries. Policy-makers might be misled by the lessons drawn in paragraphs 129 to 132 as to the pace and sequencing of a liberalization process. Sometimes quick action might be more useful and credible, when accompanied by efficient macro-economic management policies. An important aspect of reforms was their proper sequencing. The findings by other bodies, such as the World Bank, which had done extensive research in this field, should be taken account of to a greater extent, in order to reach more balanced conclusions. For instance, in paragraph 5 of the document, four South American countries were cited as having recorded sizeable advances in exporting their manufactured products. It so happened that these were the very countries which had applied immediate and far-reaching reforms. Their experience ought to have led the secretariat to reach different conclusions.

39. Group B had also some problems with the examination of market access conditions for African countries (paras. 82 to 88), as well as with other parts of the document dealing with Africa. The reduction of tariffs on an MFN basis should not be seen as leading to a loss of exports for Africa. It was a consolidated liberalization measure, different from the autonomous GSP. Africa faced the prospect of some reduction of preferential margins in some markets. At the same time, African countries would with time also have greater opportunities, through expanding markets and an improved competitive environment, to take advantage of dynamic gains. Liberalization was

trade-creating, not trade-diverting. All this was positive, a challenge, although not without difficulties for a number of countries. The secretariat should therefore continue to encourage African countries to pursue their structural adjustment reforms and to build competitive supply capabilities (cf. para. 121). Tariff preferences were of diminishing importance in improving the export prospects of developing countries in general.

40. With regard to TD/B/1284, she said non-tariff measures always entailed costs to consumers, to domestic efficiency, and ultimately to a country's export competitiveness. Therefore, confining analysis to non-tariff measures of only some countries led to the omission of several important aspects. The description of obstacles to South-South trade, for example, was lacking.

41. She added that UNCTAD should develop its know-how on subjects relevant to the issues for UNCTAD VIII which she had mentioned before. The secretariat could then elaborate programmes of technical assistance for developing countries, which her Group recognized as important. For example, it might be possible to imagine proposals in the field of training, since the importance of human resources was now stressed everywhere: there was a great need to help developing countries to take advantage of increased transparency and of the trade openings in industrialized and developing countries. She could also envisage proposals in the field of trade and environment, as stated in paragaphs 6 to 10 of Board decision 384 (XXXVII) on sustainable development. For example, her Group was ready to co-operate in the further development of the UNCTAD data bank on trade and environment, referred to in paragraph 47 of TD/B/1282, and this should be accomplished within current resources. In this context, Group B looked forward to seeing the results of the Oslo seminar on trade and environment. Her Group appreciated indeed the initiatives taken by the secretariat in terms of arranging brain-storming seminars to get new ideas on traditional and new issues.

42. Finally, she said that she could not fail to mention one group of countries for whom the international community felt a special concern: the least developed countries. Her Group wanted to reiterate its support for the Programme of Action adopted at the Second United Nations Conference on the Least Developed Countries in Paris. It also wanted to reiterate its determination to contribute to the improvement of the international economic climate and to the integration of the least developed countries into the international trading system, so as to associate them better with the benefits of trade expansion.

43. The representative of China said that, although protectionism and structural adjustment had been on the Board's agenda for many years, the progress had been slow. In current international trade, protectionism from the developed countries, instead of decreasing, was on the rise, and protectionism was thus the major obstacle in the further development of international trade. If it went unchecked, world trade, in particular export trade of the developing countries, would not be improved or developed. In the Final Act of UNCTAD VII, the developed countries had undertaken to check protectionism and promote structural adjustment in favour of developing countries. However, these commitments had not been honoured in earnest so far. Of more importance, they had failed to adequately respond to the measures taken by developing countries to relax their trade régimes. Despite the fact that some developed countries had eliminated quantitative restrictions and that new anti-dumping and countervailing measures had decreased compared with the mid-1980s, their actions against developing countries, far from decreasing, had continued to increase. This was particularly true in the sectors where developing countries had gained comparative advantage. All this had adversely affected exports from the developing countries.

44. He added that developing countries were deeply worried about the increasingly evident trend towards regional blocs - a concern that was not unwarranted. He hoped that the establishment of trading groups would not be detrimental to trade liberalization and would take into account the economic and trade interests of developing countries.

45. Since the beginning of the 1980s, structural adjustment in the developed countries had proceeded slowly, while the burdens of structural adjustment had been shifted, to a large extent, to the developing countries. Developed countries should speed up their structural adjustment process so as to eliminate trade protectionism and to promote competition based on comparative advantage.

46. In recent years, the consideration of protectionism in the Board had always been linked with the Uruguay Round because the two forums touched upon the same substantive issues. Up to now the progress in the Round had been unbalanced. On the one hand, only very slow progress had been made in the market access negotiating groups on agricultural products, textiles, tropical products and natural resources products, in which many developing countries had a major stake. On the other hand, negotiations on items of interest to

the developed countries had exceeded the mandate of the Ministerial Declaration. Thus, developing countries were faced with the big difficulty of readjusting their domestic policies and legislation. In order to enable the developing countries to benefit from trade liberalization, it was essential to take full account of their special conditions and needs and to give expression to differential and more favourable treatment in the negotiations. He hoped that there would be an early resumption of the substantive negotiations of the Uruguay Round and that the negotiations would score positive results in line with the terms of reference and goals defined by the Ministerial Declaration, leading to a balanced package agreement which reflected the interests of all the participating countries.

47. He expressed appreciation to UNCTAD and UNDP for the technical assistance provided for the multilateral trade negotiations - a programme which had facilitated the effective participation by the developing countries in the negotiations. In view of the fact that the Round was still not completed and that, even after its completion, there would be a large amount of follow-up negotiations, he believed that developing countries would still need the help of UNCTAD. Therefore, he hoped that UNCTAD and UNDP would render additional technical assistance.

48. In conclusion, he said that, like other developing countries, China had suffered a lot from trade protectionism, especially, non-tariff barriers. Chinese products were subjected to even harsher limitations of a discriminatory nature in the markets of certain developed countries. Such unjust practices could not but cause grave concern. His country was therefore ready to join others in the endeavour to create a just and rational international trade environment.

49. The representative of Poland stated that the real premises, nature and consequences of economic transformation taking place in his country were not well understood, especially by developing countries. He pointed out that the transformation process in his country derived its force from the contradiction between the functional requirements of a modern economy and a command system that had been at loggerheads with those requirements. The launching of the economic transformation programme in Poland had followed a dramatic political change that signified the demise of the communist system. The transformation programme adopted by his Government represented a swift, radical and comprehensive approach to economic change. It had been launched, however,

under unfavourable conditions of deep market disequilibrium and rampant inflation. The programme had therefore to be upheld by economic stabilization measures, without which structural reforms would remain ineffective.

50. The stabilization programme was composed of five principal elements which included radical price liberalization, restrictive fiscal and monetary policy, wage policy that kept wage increases below the inflation rate, and drastic devaluation of the currency combined with introduction of its full internal convertibility. These measures were leading to the establishment of market equilibrium, albeit at a considerably depressed demand level leading to deep industrial recession and import contraction, except for food and consumer goods. While the stabilization programme contained some elements of systemic change, the transformation programme comprised other important elements which included formal abrogation of central planning, creation of a more competitive business environment by, inter alia, enacting anti-monopoly law, and extensive import liberalization embracing total elimination of import restrictions and suspension or decreasing of tariff rates. Moves were also being made towards privatization of existing industries, broad liberalization of new entrepreneurship, and facilitation of the inflow of foreign capital. Business, banking and trade infrastructure was being opened up to private and foreign capital and expanded.

51. The implementation of the stabilization and transformation programmes was affected by several exogenous factors, one of the most important being the collapse of the CMEA and intra-regional trade. The future of the Polish economy depended to a considerable extent on the prospects for resolution of the debt-service problems through significant debt reduction, as proposed by his Government. The negotiations recently initiated for Poland's association with the European Economic Community and co-operation with EFTA would have a bearing on Polish efforts to integrate itself into the world economy. The success of the transformation process hung upon the preservation of an open liberal international trading system and access to markets. The progress and eventual success of the economic transformation in Poland, besides being necessary to avoid its further marginalization in the world economy, would have an impact on its economic relations with developing countries. Three consecutive stages might be envisaged here. First, in the period until 1992, during which domestic demand and imports contraction would support the export drive - in competition with that of the developing countries - in third

markets and would affect negatively developing countries' exports of production inputs into Poland. In the second stage, extending to the mid-1990s, the Polish economy would show signs of revival, with exportable products being absorbed by growing domestic demand and with imports - primarily of production inputs - expanding. That would benefit the developing countries' trade in general, and their trade with Poland in particular. In the third stage, beginning in the later part of the 1990s, Polish exports would again begin to expand and become more competitive. Although imports of traditional primary commodities would diminish in importance, intra-industry co-operation would develop with a potential for trade expansion in components and intermediate goods. With regard to developing countries, the new trade opportunities could be better exploited, and the competition faced more successfully, if developing countries themselves made efforts to that effect. Moreover, the systematic change which had been introduced implied an institutional change in Poland's co-operation with developing countries, including the consistent shift from bilateral to multilateral forms of trade, with Poland managing her external economic relations, including those with developing countries, within the framework of - and having recourse to - the rules of the international multilateral trading systems. Poland, therefore, did not consider it appropriate to establish within UNCTAD any special mechanism to deal with that trade as a separate isolated issue.

52. The representative of the European Economic Community and its member States said that in 1990 the EEC had increased its openness to the outside world and, in particular, its efforts in favour of the developing countries and the East European countries. It had renewed, with a number of improvements, its GSP scheme, from which all developing countries benefited. Although the Lomé Convention, which linked the Community with 69 ACP developing countries, had not yet been ratified by enough States to enable it to come into force, its trade provisions had been applied in anticipation of that ratification. The States members of the Community had, moreover, abolished a number of national quantitative restrictions vis-à-vis Central and Eastern European countries, as well as other contracting parties in the GATT, pursuant to commitments undertaken in the Uruguay Round. As for its anti-dumping activities, the Community had adopted anti-dumping rules in line

with its international commitments, in particular Article VI of the GATT and the Anti-dumping Code of 1979. In 1989 the number of anti-dumping duties and acceptances of price agreements had been the lowest recorded in the EEC since 1985. In paragraph 55 of its report the secretariat stated that, in certain developed market-economy countries, the tariff treatment granted to developing countries as a whole was less favourable than that extended to other developed countries. However, paragraph 58 of the same report pointed out correctly that the relative share of imports which in principle entered the Community under a preferential tariff regime was far higher for the developing countries than for the developed countries, with a few exceptions.

53. In granting trade preferences to Bulgaria, Hungary, Poland, Romania and Czechoslovakia, the EEC had been well aware of the possible diversionary effects for trade originating in other countries, and particularly that of the developing countries. However, in helping the East European countries to develop economically, the Community was also helping them to become more active members of the international community and to participate in the international trading system to the benefit of all countries. As the secretariat had pointed out in its report, one of the effects of the opening up of the East European countries, including the USSR, could be the creation of new export markets for the developing countries, although there could also be an intensification of international competition in the longer term. This intensified competition was not in itself a problem; on the contrary, it could result in a better allocation of resources as long as there was respect for the rules of competition and for the protection of the weaker partners - two principles to which the EEC was and would remain attached.

54. The EEC was pleased to see the recent resumption of the multilateral trade negotiations of the Uruguay Round after the impasse of the Ministerial Conference in Brussels. A positive outcome for the Round remained the first priority in the trade policy of the Community and other developments, such as the creation of the Community's interior market or aid to the East European countries, would not cause the Community to deviate from that priority. In these negotiations the Community was seeking balanced compromises founded on the principle of consensus and globality. With regard to market access, effective liberalization could be achieved only if all the participants, both the industialized and the developing countries, were to contribute to that end. Since the value of such advances might be diminished in the absence of a

framework of clear and stable rules and disciplines, the Community also attached great importance to the negotiations on the settlement of disputes, on safeguards and the Articles of the GATT. Furthermore, the Community recalled its commitment at Punta del Este and Montreal to a greater liberalization of the trade in the textile and clothing sector. That sector was of particular importance to many developing countries since it represented a quarter of their exports of manufactured products.

55. Since the beginning of the MTNs, the Community had supported the progressive elimination of existing restrictions through the use of a technique which had received widespread support, including that of the developing countries. The Community had also argued in favour of a harmonization of Customs duties at specified levels to allow for market access in the industrialized countries and to take account of the particularities of the developing countries. However, this progressive elimination of trade restrictions was inconceivable without a genuine strengthening of the rules and disciplines of the GATT, making them applicable to all parties.

56. He noted that the secretariat report dealt specifically with two very important subjects of the negotiations: agriculture and tropical products. With regard to agriculture, the Community considered that the constructive and realistic proposals which it had made in tne negotiations, aimed at substantial and progressive reductions in the global support for and protection of agriculture, in full conformity with the results of the mid-term review, constituted a good basis for making progress in the reform of this sector. With regard to the developing countries, the Community had shown that it was in favour of a certain flexibility, taking account of the level of development and the actual development needs of the country concerned, in the application of any rule adopted for the reduction of agricultural support and protection. The Community had also underlined the need to take account of the possible negative effect of the reform on the economies of net food-importing countries. To that end the Community had made proposals for lessening the impact of price rises following on the reduction of agricultural support and protection. These proposals included the provision - free or on preferential terms - of food products and the granting of financial assistance for the development of the domestic food industry of the most disadvantaged developing countries. As for tropical products, the Community had been quick to put

forward a very detailed proposal for the liberalization of this sector which had been regarded as generous by the other participants and which in any case went beyond the EEC proposals for the dismantling of tariff and non-tariff barriers in the other sectors. But in view of its special responsibility towards a certain number of associated countries and the desire to maintain existing preferential margins in favour of the least developed countries, the Community had made its liberalization proposals subject to certain conditions. In particular, the Community expected to see an equitable sharing of the liberalization efforts among all the industrialized countries and the most advanced developing countries, as well as a degree of reciprocity on the part of the main beneficiary countries, including those developing countries whose level of development enabled them to participate more fully in the overall balance of rights and duties under the GATT. Finally, in deference to the arguments that these proposals, made on the basis of the MFN principle, were benefiting the industrialized countries that produced tropical products, the Community had revised its proposals on the eve of the Brussels Conference in order to increase the benefit which the developing countries could derive from them.

57. In view of these considerations, the Community wished to express its disagreement with certain of the trade effects cited in the secretariat report which, as the report itself made clear, were founded on the concessions offered as at the end of July 1990. The estimates of the net losses of the African region seemed in particular highly debatable, since they were based on an analysis on which it would be useful to have more details. Moreover, the analysis appeared not to take account of the impact of improved proposals made by other participants for the exports of tropical products from the African region, possibly because these improvements had been made after the end of July. The Community hoped that these improvements would figure again in a final package which should be more comprehensive than the present one.

58. He recalled that the Community had already dealt at length at a previous session of the Board with the establishment of the single EEC market in 1992, as well as its implications for the export prospects of the developing countries. Much of the comment on the possible effects of 1992 on the trade of the developing countries was of a speculative nature. The fact was that the process of economic integration of the European Community had already

begun many years ago and 1992 would be merely the final phase of a process that was already at an advanced stage. Moreover, the impact of the creation of the internal market would be different according to the products and according to the diverse economic sectors; and the balance of advantages and drawbacks would differ according to the trade structure and the economy of the third countries themselves. Nevertheless, in a general way one could say that the increase in resources which this integration movement would stimulate was a factor making for progress rather than a step backwards for the international community as a whole. On the particular issue of banana exports from certain ACP countries to the Community market, he recalled that, under the terms of the Lomé Convention, the Community would be authorized to establish common rules for bananas, in full consultation with the ACP States, with a view to maintaining Community preferences at their current levels. If there were a decline in the consumption of bananas following the creation of the single market, the Community would consult the traditional suppliers with a view to safeguarding the legitimate interests of those concerned.

59. Finally, with regard to the experiments in economic liberalization in the developing countries, the Community believed that trade liberalization was essential to economic development, and this included the setting of the exchange rate and the liberalization of internal policies on the movement of capital, on prices and on salaries. Levels of development and specific situations were so different that no one liberalization model could be applied universally. Trade liberalization efforts must be viewed in the context of the general economic situation of a country and the evolution of its macro-economic setting, and must be integrated in that setting.

60. The representative of Turkey stated that the increased demand on the foreign exchange markets coupled with higher interest rates would increase the economic challenges faced by most of the non-oil-exporting developing countries and there was a risk that such an environment might endanger the structural adjustment efforts of an increasing number of countries. At this critical juncture of the world economy, a failure in the Uruguay Round would accentuate the difficulties and negative tendencies and might even lead the world economy to ruin, giving rise to devastating competitive protectionism. He recalled that a year earlier the Board had urged the participants in the Uruguay Round to strive for a balanced and successful outcome of the Round.

The spectre of its possible failure had haunted the world community for a while, but there was now room for optimism. In order to reach the legitimate objective of achieving substantial results in all areas of the Round, a new sense of responsibility should be injected to meet the prerequisites of the new trading environment. He stressed the need to broaden market access, define adequate and equitable disciplines in the new areas, and strengthen GATT rules in order to build a more transparent and predictable multilateral trading system. This could only be achieved through a collective expression of determination.

61. He considered that commitment to a substantial but progressive liberalization in all sectors of the economy was a realistic approach. Turkey, and other countries which had made efforts aimed at liberalizing their economies, stood to lose most if the Uruguay Round failed and there was a return to protectionism throughout the world. Trade liberalization, successful structural adjustment policies and balances at the national level between the private and public sectors were inextricably linked with national good governance - the substantive item on the agenda of UNCTAD VIII. In this connection, the Caracas Informal Encounter on National Governance and the Oslo Seminar on Trade in Relation to Environment and Development would certainly be of great relevance to the preparations for the Conference.

62. The representative of Sweden, speaking on behalf of the Nordic countries, expressing support for the Statement made on behalf of Group B, said that an increasing number of countries now supported the multilateral trading system as a guarantee against protectionism and that there was also a trend towards regionalization. He underlined the importance of regional arrangements as a complementary element to improve international trade opportunities. The Nordic countries had repeatedly underlined the importance of an open multilateral trading system, which should also meet new demands set by the changes in the pattern of trade in goods and services. He therefore hoped the Uruguay Round would conclude as soon as possible with a satisfactory result for all. He felt that a fuller integration of all developing countries into the international trading system, taking into account their growing diversity, was in their interest. Recent developments had shown that the most successful developing countries were those that had introduced policy changes leading to less regulated and more open markets, through the encouragement of exports and the liberalization of imports.

63. The Nordic countries also welcomed the social and economic reforms in the Central and Eastern European countries. Once the reform process was completed, these markets would provide opportunities for increased trade which the developing countries should seize. But developing countries might also be faced with increased competition from these countries on world markets.

64. He noted a growing awareness of the positive effects of market-oriented approaches, adapted to the circumstances of each country, and a change in attitude towards foreign direct investment. He underlined the importance of good governance and efficient management of resources to attract foreign investment.

65. Three documents calling for political action in favour of developing countries had been adopted in 1990: the Declaration by the Special Session of the United Nations General Assembly on International Economic Co-operation, the Programme of Action for the Least Developed Countries for the 1990s, and the New International Development Strategy for the 1990s. They all proved the possibility of reaching agreement on important measures in favour of the developing countries, and the action called for should be implemented as soon as possible. South-South trade offered large potential benefits and should be better explored. In this regard, the report of the South Commission was highly relevant, especially its statement that the GSTP should be used purposefully. The Nordic countries welcomed information on actual trade flows under the GSTP.

66. The Nordic countries noted with satisfaction the full consideration of the environment in the promotion of trade and development reflected in the preparations for UNCTAD VIII. The results of the Oslo Seminar on Trade and Environment should serve as an input for the secretariat documentation for UNCTAD VIII and he hoped that the results would indeed contribute to the development of thinking and action on this important issue. There had been a broad agreement at that seminar on the eradication of poverty as one basic element in global sustainable development.

67. The representative of Hungary stated that his country was continuing to deregulate its economy and to introduce legislative measures to enhance the framework of a market economy. Extensive liberalization had taken place in the field of trade. Although the recession seemed to be deepening further, Hungary's financial balance had improved and structural changes as well as Hungary's integration into the world economy were in progress. Both

industrial and agricultural output had declined considerably in 1990 and, owing to the collapse of CMEA trade and contraction in the home market, further difficulties were expected in 1991. Inflation and unemployment were accelerating. The fall in industrial output was mainly in traditional large sectors and, although the number and output of small-scale industries were increasing rapidly, their share in total production was not yet good enough to compensate for the decline. The budget deficit had narrowed considerably and Hungary's current account was, for the first time, in surplus, thanks mainly to the performance of Hungarian exports in the OECD markets. The trade balance showed an overall surplus of $1 billion in spite of a considerable increase in imports as a result of import liberalization. The value of goods imported from developing countries was about 60 per cent higher. The Gulf crisis had hampered Hungary's exports to this region so that its overall trade balance vis-à-vis developing countries had turned in their favour for the first time in decades. Although 1991 would still be very difficult, he felt that prospects were increasingly promising, but much would depend on the world economic outlook.

68. Commenting on the documentation, he said that, owing to the general approach applied to the issues, most of the conclusions were not valid as regards Hungary. In one report, the part dealing with Hungary's access to the OECD markets, for example, did not state clearly that most of the measures cited were only abolishing those restrictions that were contravening the GATT and were thus only restoring normal treatment. He noted that, in those few areas where Hungarian exports competed with those of the developing countries, the GSP was either not applied or was fraught with many restrictions. The report failed to include Hungary's most important trade liberalization measures and its achievements towards the creation of a full-fledged market economy. He believed that this development, together with the conversion of the former CMEA trade to market principles, strongly enhanced the competitive position of developing countries. He also felt strongly that in studying the special government measures in agriculture and the effect of non-tariff measures, the practices of all countries should have been examined.

69. Finally, referring to the statement of the spokesman for the Group of 77 (India) he stated that Hungary could not support the proposal to set up an ad hoc intergovernmental mechanism in UNCTAD to review and promote trade and

economic relations between developing countries and countries in Eastern Europe during the transition period. His delegation could see no good reason to establish intergovernmental machinery to review a particular segment of international trade. The transition measures being undertaken in Hungary were based on the sovereign decision of the Parliament and Government and were not subject to any form of review in UNCTAD. He hoped that this position would be well understood and that such aspirations would not be pursued. He was convinced that trade opportunities for the developing countries could not be exploited through any intergovernmental machinery but only by applying all those methods that were compatible with market mechanisms.

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Sessional Committee I

DRAFT REPORT OF SESSIONAL COMMITTEE I

Rapporteur: Mr. Ricardo Babul (Chile)

Addendum

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AGENDA ITEM 2

(continued)

70. The representative of Tunisia pointed out that efforts towards trade liberalization in developing countries, which included reductions of customs duties, simplified tariff structures and frequent dismantlement of non-tariff measures, had been substantially more widepsread than the trade liberalization measures undertaken in developed market economies in favour of developing countries. Delays in the Uruguay Round, as well as new free trade agreements between developed market economies and the extension of the GSP to Eastern European countries, were all seen as recent factors threatening the preferential treatment granted to developing countries. The economic liberalization taking place in Eastern European countries would be welcome if it became a new source of trade expansion for developing countries, but he expressed concern that the renewed interest in Eastern European countries might in fact be detrimental to developing countries. Indeed, new trade liberalization measures in favour of the former countries had been taken, while such measures in favour of developing countries had remained modest.

71. He stressed that developing countries had the right to expect differential and preferential treatment as resumed growth in these countries would have a stimulating impact on world trade and thus on developed market economies' exports. At a time when developing countries were liberalizing their markets, certain developed countries continued to apply non-tariff measures, including sanitary, security or technical norms, which were hardly justified and which put a brake on imports from developing countries. In this context, he pointed out that manufactured exports from Africa remained insignificant.

72. He added that the rapid liberalization process occurring in Africa and Latin America should be contrasted with the industrialization experience in South-East Asia, which argued for a lengthy transition period before liberalization could begin. Worsening budgetary deficits and the build-up of inflation were noticeable outcomes of such reforms as the reduction of customs duties. Therefore, such reforms needed to be combined with increased financial flows, development aid and technology transfers in order to foster growth in developing countries.

73. Tunisia's liberalization programme, which started in 1986, was proceeding rapidly. The reforms introduced would lead to a freeing of 70 per cent of

imports and to a lowering of effective protection rates to 25 per cent by 1990. Private enterprise had been encouraged by financial and fiscal reform, partial deregulation of industrial prices, and further measures to reduce both tariff and non-tariff measures. However, the success of these reforms hinged upon external factors over which the Government had little control. These included exchange and interest rate movements, and ensuing increases in the debt service which exceeded the flows of new lending. Also, the share of foreign direct investment in total capital inflows had declined substantially.

74. Finally, he referred to the negative consequences of the Gulf crisis on the Tunisian economy, and expressed the hope that its outcome would lead the way to a new economic order which took full account of the aspirations of all people for growth, development and welfare. In this respect, he doubted that current Uruguay Round negotiations really took into account the needs of countries of the South, particularly in the areas of intellectual property, investments and services, where equitable growth called for a differential and preferential treatment for developing countries.

75. The representative of Austria stressed the importance of import liberalization as a prerequisite for sustained economic growth. The argument centred on whether the process of liberalization should be gradual or rapid and broad-based as the best way to bring about a successful structural adjustment. A step-by-step approach could be adopted only in conditions of political stability and continuity. The benefits of liberalization were, however, overriding and were intimately linked with the problem of international competitiveness and the exploitation of comparative advantages. For governments embarking on a course of liberalization, the decisive question was whether comparative advantages and competitive positions emerged as an automatic consequence of trade liberalization or whether policy-makers had to intervene to influence their outcome. He felt that competitiveness arose not from government intervention but rather from a comparative advantage which sprang from the prevailing national environment - one which strongly favoured improvement and innovation in selected industries.

76. The basic question for policy-makers was how to upgrade productivity and create a dynamic and innovative climate. Among the domestic conditions required to achieve competitiveness were skilled human resources and specialized knowledge. Other elements for the development of a competitive industry included special demand conditions - consisting of national habits, preferences or passions - and strong domestic rivalry. Thus, the role of

governments should be to bring about appropriate conditions for intense competition by means of indirect measures which upgraded the human factor and sustained the rivalry of various local producers. Active government involvement should be restricted to such areas as environment, social and health standards, safety and quality controls.

77. Turning to the root causes of protectionism, he said that the arguments which could be invoked to justify protectionist policies were essentially non-economic in character. For instance, everybody was familiar with the high level of government support for agriculture in many European countries. These measures were justified with non-economic arguments such as food security or the preservation of a traditional rural society. Thus, whenever government policy tried to avoid the real issue, namely productivity, society as a whole had to pay the price in the form of a lower standard of living. And as far as foreign trade was concerned, the truly productive sectors would have to make up for the resources lost in the protected sectors.

78. His main conclusions were as follows:

(a) The principle of liberalization had been recognized as the correct way to bring a country's economy into line with the world economy and to make it ready to face global competition.

(b) Under certain conditions, governments would be well advised to proceed gradually in order not to expose all sectors of the economy to the shock of international competition simultaneously. However, in some circumstances, a rapid opening-up of the market might be preferable.

(c) Governments could use various instruments to protect their industry or certain sectors of their industry but, whenever a country was aiming at a truly competitive international position, protection was not the proper means to gain and to sustain it. Rather, adequate framework conditions such as a high level of human skill, local demand and intense internal rivalry should be encouraged and, once they had been created, defended as stubbornly as possible.

(d) In all this, the lessons to be drawn from the experience of such successful countries as Switzerland and Sweden, Japan and the Republic of Korea should be heeded - in particular that scarcity rather than abundance had been the principal motivating force for innovation. This, by the way, also applied to his own country's competitivity. Nations advanced under pressure and in response to a challenge, but naturally they advanced only if they were willing and able to create the kind of environment which he had tried to describe in the hope of contributing to the clarification of a complex but important concept.

79. Referring to the secretariat report on protectionism and structural adjustment (TD/B/1282), the representative of New Zealand said that the report was right in emphasizing the export prospects of developing countries, but the approach taken tended to foster an artificial North/South view of problems which transcended the reality of that divide. The liberalization measures taken by a number of developing countries had been adopted at some political and, in the short run, economic cost, but in view of the uncertain external environment, these countries could not reap immediate benefits. Such factors had led to some protectionist measures which the secretariat had failed to mention. In paragraphs 129-132 of the report, the secretariat had made some interesting observations about the relative success of different models of liberalization, but more work was needed in this area concerning the benefits for countries embarking on a liberalization programme. Regarding the effects of liberalization on the trade of developing countries, the secretariat seemed unsure of the value of MFN-based liberalization in some areas, because of the erosion of margins of preference under the GSP and other preferential arrangements that it would entail. There was a risk of losing sight of the long-run fundamental aim, which was the more secure and predictable framework given by MFN-based liberalization in the GATT. The importance in the growth of exports of factors other than margins of preference needed also to be emphasized, and in particular the need for appropriate national policies to develop international competitiveness.

80. Referring to agricultural protection, he concurred with the view of the representative of Austria that recognition by governments of the costs to consumers and to the national economy could make a great contribution to reducing protectionism, with great benefit to competitive agricultural exporters in developing and other countries, as well as to the economy imposing protection. Agriculture was a crucial factor in the Uruguay Round negotiations. It stood apart in those negotiations, perhaps because, in the major industrial countries, its lobbies were among the best funded, the best organized and the most listened to by governments, in relation to their importance in the economy and in the population. The secretariat report showed clearly the scale of the problem and the responsibility in this particular area of liberalization of those countries which, by the size of their markets and their production, had a determining influence on both world prices and market access for agricultural exporters.

81. The representative of Romania stated that his country, as a member of the Group of 77 and as a country in transition towards a market economy, attached considerable importance to the problems of protectionism and structural adjustment. Despite trade liberalization measures undertaken by developed countries in support of the process of economic reforms in the countries of Eastern Europe and the lifting of certain import restrictions in favour of exports of developing countries, the proportion of trade subject to non-tariff measures had not diminished markedly and most of the restrictions which had existed before the start of the Uruguay Round negotiations still prevailed. Protectionist measures were being applied frequently in violation of GATT rules, and recourse to antidumping measures was being used for protectionist purposes. Preferential tariff treatment in favour of developing countries had also been weakened. Little progress had been made in the area of structural adjustment in developed countries, particularly in those areas where protectionist measures had been applied for long periods.

82. It was necessary to respect the obligations undertaken in the Final Act of UNCTAD VII with regard to protectionism and market access with a view to creating a more open, non-discriminatory, credible and durable trading system which could contribute to the expansion of growth and development. The Uruguay Round negotiations constituted an important means to achieve that objective. A positive outcome of the negotiations could underpin the efforts made by developing countries and countries in transition towards a market-economy system to attain their social and economic objectives. Romania was participating actively in the negotiations and was ready to make its contribution to the liberalization of international trade.

83. His country was in the process of switching to a market economy system. This economic reform was made more complicated by the extremely difficult economic situation inherited from the previous régime, by Romania's level of development - which was that of a developing country - and by unfavourable external conditions, in particular the Gulf crisis and the transition to a system of convertible currency settlements for trade between the CMEA member countries. The losses suffered by Romania on account of the Gulf crisis alone amounted to approximately $US 3 billion. Radical measures had been undertaken for the privatization and liberalization of the national economy. The centralized planning system had been abolished, the process of liberalizing prices and salaries had been launched, and economic agents now enjoyed full autonomy. Profound changes in his country's external economic relations and

trade policies included the abolition of State monopoly of foreign trade and foreign currencies, the elimination of centralized planning of foreign trade, and the liberalization of imports and exports, as well as of foreign investment régimes. Romania was thus engaged in a far-reaching process of structural adjustments, aimed at correcting the major imbalances in the national economy. On the one hand, there was the imbalance between resources and production capacities due to the excessive development of the manufacture of products that required a high level of raw materials and energy. On the other hand there was an imbalance between the structure of demand in the market and the structure of production. Enterprises would therefore be compelled either to undertake structural adjustments, possibly with short-term assistance from the State, or to go bankrupt. The process of transition to a market-economy system required large-scale foreign investment and financial assistance from the international community. In this process Romania also counted on technical assistance from UNCTAD. He was convinced nevertheless that his country's transition to a market-economy system and its integration into the international economic system would undoubtedly reinvigorate the national economy and broaden its economic relations with all countries, including the other developing countries.

84. The representative of Bulgaria, referring to the secretariat report TD/B/1282, stated that progress made by developed countries in reducing non-tariff barriers for the exports from the countries in Eastern Europe, including Bulgaria, would considerably contribute to the liberalization of world trade, but his country could not agree with the view expressed in the report that the granting of GSP status to some of the latter countries was among those factors that had eroded preferential tariff treatment for developing countries. He considered that the extension of preferential treatment to new countries was an improvement of the international trading system, and that concerns that the resulting increase of exports from Eastern and Central Europe would affect the export position of developing countries were rather premature. He emphasized that the integration of the countries in Eastern Europe into the world economy, and the liberalization of their trade régime, would create substantial new opportunities for the developing countries.

85. Regarding the ongoing regionalization of world trade, he said that it was of priority importance when creating regional trade groupings to conform to the spirit and principles of multilateralism and non-discrimination. In this

respect, a successful and balanced outcome of the Uruguay Round was very important for the future development of the international trading system. Although he understood the preoccupation of the Group of 77 as regards the future development of economic co-operation between developing countries and countries in Eastern Europe, he said that, as stated already at previous sessions of the Board, in view of the profound systemic changes in his own country, it would not be relevant to single out these relations from the overall trade context. However, the suggestion for a focal point within the secretariat might be considered.

86. Bulgaria was facing a number of serious economic problems in the process of transition to a market economy, but a strong social consensus had emerged in the country for addressing the macro-economic imbalances and implementing fundamental systemic reforms. An economic programme, initiating major structural reforms, had been introduced. The reforms included, inter alia, a comprehensive price reform, eliminating almost all restrictions on producer and consumer prices, a reform of the exchange system, based on an interbank foreign-exchange market, abolition of nearly all import licence requirements and quantitative restrictions, reduction of export taxes coverage and a gradual removal of State plan agreements with former CMEA countries. A far-reaching privatization programme was being developed and a two-level strategy had been adopted. Small enterprises with assets up to Leva 10 million could already be auctioned without further Government approval. Large-scale privatization would be addressed in the near future and a State Property and Privatization Agency would be established to monitor this process. New fiscal and tax policies had been implemented aiming to reduce the Government deficit and decrease the redistributive role of the State budget. The basic legal framework for the systemic changes undertaken was in the process of establishment. The country's Parliament had adopted the Bill on Land Reform and was expected to adopt in the near future legislation on privatization, foreign investment, competition, bankruptcy, as well as a new comprehensive Trade Bill. The social safety net had been strengthened. The stabilization programme would be negatively affected by the external environment and a further deterioration in Bulgaria's current account position was expected in 1991. The combined net loss from the dissolution of the CMEA trading system and the Middle East crisis was expected to reach $US 3 billion, or 13 per cent of the projected 1991 GDP. In the medium term, a viable external balance was to be restored, in particular through export expansion

and restraint in domestic demand. The success of stabilization and structural reforms would critically depend on the assistance provided by private creditors, multilateral institutions and foreign Governments. Bulgaria was sparing no effort to succeed in its reforms. It was holding broad contacts with the international monetary, trading and credit institutions, had recently become a member of IMF and the World Bank and was working on its accession to the GATT.

87. The representative of Czechoslovakia stated that the process of economic reform in his country, which was designed to bring about a radical change from a centrally-planned to a market economy, was being accelerated by the adoption of several laws having as a common feature the abolition of direct administrative management, demonopolization, price liberalization, introduction of internal convertibility, privatization and promotion of private entrepreneurship. An important change in foreign trade had been the total abolition of State monopoly as from the beginning of 1991. New legislation was also adopted to encourage the inflow of foreign investment, and to promote the establishment of joint stock companies with foreign participation. His country had also abolished all protectionist measures and was now relying on customs duties as the main trade-policy instrument. The average level of such duties was one of the lowest in the world - or about 4.5 per cent.

88. The opening up of the Czechoslovak economy created new opportunities for foreign exporters, in particular from developing countries which enjoyed GSP advantages. A major positive contribution which the international community could make in favour of his country was to create a favourable economic climate and to provide better market access for Czechoslovak products. He appreciated the steps taken by many OECD countries resulting in the elimination of a number of quantitative restrictions, granting of MFN status and extending GSP status to this country.

89. Czechoslovakia was in favour of strengthening an open and free multilateral trading system and was therefore highly interested in, and committed to, an early and successful outcome of the Uruguay Round. While he appreciated the many facts about protectionism and structural adjustment described in the secretariat report (TD/B/1282), he felt that the structure of the report and the way in which the facts had been set forth did not always reflect objectively the developments and might misinterpret the analytical findings. He cited some examples in support of this view.

90. Finally, he said that his delegation could not support the idea of creating an ad hoc intergovernmental mechanism in UNCTAD to review and promote trade and economic relations between developing countries and countries of Central and Eastern Europe during the transitional period, as had been suggested in the statement by the spokesman for the Group of 77.

91. The spokesman for the Group of 77 (India), speaking on the Uruguay Round, emphasized that developing countries would like to make clear that the inability of the December 1990 Brussels meeting to arrive at a final outcome was not of their making. Their participation in the Uruguay Round process had been unprecedented and constructive and would continue to be so. It was possible, however, to make a general assessment of the trends with regard to the outcome in the different negotiating areas. These trends would have to be seen in terms of whether they had been favourable to genuine trade expansion, to the correction of imbalances in the international trading system and to rendering it more stable and beneficial to developing countries.

92. It was clear that the conduct of negotiations had not permitted broad-based participation in decision-making. Developing countries had indicated categorically that they would reject any attempt to impose upon them a pre-negotiated package agreed to only by a few. Despite this, linkages between different areas and issues which did not take into account the stipulation about differential and more favourable treatment for developing countries, about non-reciprocity of concessions made to them and about their not being asked to make concessions which were inconsistent with their individual development, financial and trade needs, continued to be made and asymmetries in the degree of progress sought remained in and between various groups and issues. The translation of the principles of differential and more favourable treatment to developing countries into concrete operational obligations and commitments in all of the areas was conspicuous by its absence. On the contrary, bilateral pressures and the threat of unilateral action were used to obtain the acquiescence of developing countries to developed-country approaches.

93. He also noted that the Punta del Este Declaration provided for special attention to be given to the particular situation and problems of the least developed countries and to the need to encourage positive measures to facilitate expansion of their trading opportunities. However, the full comprehension of the heavy social and political costs of structural adjustment undertaken by least developed countries for nearly a decade against a

recessionary perspective and reduced external resource flows to them had not so far manifested itself in the Uruguay Round process. The clear understanding in the Punta del Este Declaration that these countries would not be asked to make commitments which their economy - yielding less than 70 US cents per capita per day - could not sustain for the foreseeable future, should after over four years of negotiations be translated into action and the proposals put forward by LDCs in each of the groups be appropriately reflected in the outcome.

94. Developing countries attached special importance to obtaining a special package of concessions on the market access issues, and gains in these areas were the raison d'être for developing country participation in the Round. The special status of developing countries was recognized in these as in other areas but, in practice, and in violation of negotiating principles, developing countries were asked to make "reciprocal contributions" that were disproportionate to their capacities and inconsistent with their development, financial and trade needs. The negotiations in the market access groups were also undermined by negative linkages with negotiations on rule making on the new areas, demands for one-to-one reciprocity by major trading partners, limitations in coverage of products of interest to developing countries and minimal progress on liberalization of non-tariff measures. Also, the non-fulfilment of standstill and rollback commitments, especially in respect of those measures affecting market access for products originating in developing countries, concerns about the final results having the effect of legitimizing measures which were currently inconsistent with the GATT and repeated attempts to postpone the fulfilment of the commitments dampened expectations of any major gain in market access areas.

95. In tariff negotiations a target amount for overall reduction at least as ambitious as that achieved by the participants in the Tokyo Round (at least 33 per cent) could ultimately be achieved in most major markets. However, the offer and request procedure followed tended to insulate tariff protection on products of priority interest to developing countries and special tariff concessions on such products were subjected to "satisfactory reciprocity by developing countries". It also had become evident that the commitment to give credit and recognition to developing-country participants which had undertaken significant autonomous tariff liberalization measures since the launching of the Round had not been respected. This should be corrected and proposals recently put forward by many developing countries deserved serious

consideration in order to achieve concrete and tangible results. There was also no recognition of the substantial efforts made by developing countries to increase the scope of their tariff bindings. The problem of tariff escalation and tariff peaks on products of export interest to developing countries was not sufficiently addressed and MFN tariff reductions implied the erosion of preferential margins for preference-receiving developing countries, and this called for supplementary measures to be taken by preference-giving countries by substantially improving their GSP schemes.

96. In the area of NTMs, the efforts to arrest the incidence and proliferation of NTMs which constituted a major hazard and impediment for developing-country exports into developed-country markets had not met with much success in the Round. The fundamental issue of an agreed perception or definition of which NTMs were GATT-consistent or otherwise was not substantially resolved. Also, any definitive outcome in this area was held hostage to developments in other negotiating groups such as textiles and clothing, agriculture, MTN agreements and arrangements. It was, however, clear that the phase-out or elimination of quantitative restrictions and other measures with similar effects in pursuance of the rollback commitment remained largely unfulfilled and that many participants were concerned that they might be asked to pay for removal of developed-country measures which were of doubtful compatability with the GATT. The offer and request procedure laid down for negotiating the reduction or elimination of NTMs was not conducive to positive results, especially for developing countries whose special need to continue to use NTMs had been well recognized.

97. In the area of tropical products, developing countries with a major interest in the export of tropical products found that developed-country offers were inadequate in terms of depth of tariff concessions and that, in this critical area of export interest to developing countries, developed countries were demanding reciprocal concessions. Moreover, the offers made so far by developed countries had resulted in the erosion of preferential margins enjoyed by those developing countries whose economies were heavily dependent on these products. Removal of tariff and non-tariff barriers and reduction and elimination of tariff escalation with regard to tropical products exported by developing countries should receive the priority it deserved and any trade liberalization in this area should not divert trade away from the traditional developing-country suppliers of tropical products.

98. The textiles and clothing sector should be relieved from restrictions and reintegrated into GATT after nearly 30 years of exclusion. Developing-country exporters of textiles and clothing expected liberalization of the trade in this sector to lead to a substantial improvement in their export earnings. The agreement in this area should result in an appreciable decrease in the scope of restrictions, acceleration of the phase-out of the restrictive trade régime - the MFA - decreased protection to the domestic industries of MFA-user countries, progressive elimination of selective safeguards and limitations on the resort to trade harassment measures in this sector.

99. The impasse at Brussels could be attributed in large measure to failure to achieve the objectives in one key area of liberalization - that of agricultural trade. This would continue to influence any likely resumption and conclusion of the negotiations. Developing countries supported greater liberalization of trade in agriculture by increasing access to markets and by substantial reduction in internal support and elimination of export subsidies and all derogations deriving from waivers and protocols of accession of developed countries. The final aim of this process was to achieve the integration of agriculture into the GATT. For developing-country exporters of agricultural products, liberalization of agricultural trade was of crucial importance. It was also important to emphasize the development dimension in agriculture and the special role that agriculture played in a developing economy. Any agreement on agricultural trade should provide flexibility and autonomy in the use of all measures relating to internal support programmes, export subsidies and border measures to developing countries. The net food-importing developing countries needed measures to be in place to offset the burden arising from an increase in food prices in the short and medium term on account of reduction and/or elimination of subsidies by major food-exporting countries.

100. Trade in natural resource-based products, including their semi-processed and processed forms, was another market access issue where there was little progress. The paralysis in this area was mainly due to the totally untenable and unacceptable demand of some developed-country participants for concessions on access to supply of natural resources of developing countries. There was little sign of progress on the reduction or elimination of tariffs, especially tariff escalation and non-tariff measures on such sectors as fisheries. A positive outcome in this area would result in considerable benefit to a large

number of developing countries. Such an outcome should offer improved import access through deeper cuts in rates applicable to GSP beneficiaries and least developed countries and extension of preferential coverage, as well as limiting the erosion of preferential margins and potential trade losses for the most vulnerable countries.

101. Developing countries supported a strengthening of the GATT rules and disciplines so as to clarify and resolve the shortcomings that had arisen in the interpretation of the rules of the GATT system, and provide greater security and predictability in their application and in their compliance. However, the outcome in these areas should be balanced and benefit all participants, especially developing countries. Nowhere was the attempt to deprive developing countries of their rights under the GATT and to set aside their special needs and interests more evident than in the move of some developed countries to review GATT Article XVIII, especially its Section B. Developed countries were seeking to abridge or deny the right of developing countries with balance-of-payments problems of a structural and persistent nature to exercise necessary flexibility in trade policies. Such a move had far-reaching negative implications for them and was totally unjustifiable at a time when the need of the developing countries to invoke Article XVIII was greater. Neither any change in the Article itself nor in the procedures for its invocation would be acceptable to developing countries.

102. Developing countries attached high priority to a comprehensive agreement on safeguards which reaffirmed the MFN principle and outlawed grey-area measures. They resisted attempts to legitimize discriminatory safeguard action against exports from "selected countries". Selectivity was the very antithesis of all that the GATT stood for, and any trade liberalization resulting from the Uruguay Round could well find itself thwarted or set at nought by discriminatory restrictions against specific suppliers or by perpetuation of grey-area measures, and could hit the most vulnerable trading partners, the developing countries. Any outcome in this area should not compromise on the question of selectivity, nor should it seek to differentiate among developing country exports on the basis of market share thresholds. It should also include a programme for the elimination of grey-area measures.

103. The objective of improving, clarifying and expanding, as appropriate, the entire range of agreements and arrangements or codes negotiated in the Tokyo Round meant that, in respect of developing countries, the obstacles to their effective participation should be removed, that the agreements be made less

restrictive and that difficulties in their implementation be effectively addressed. But it was the work on the new Anti-dumping Code which had the most significant implications for developing countries, given the proliferating use of these measures, often as a surrogate for selective safeguards. Proposals being considered could add considerably to the wide array of protective instruments that could be used under the garb of anti-dumping measures. Proposals for addressing alleged circumvention of anti-dumping measures applied on products by way of assembly or completion of parts and components thereof raised serious concerns in many developing countries about their anti-development and anti-investment nature, given the interlinkages of global manufacturing operations. The broadening of the definition of similar products, recurrent anti-dumping treatment, more flexible conditions for imposing retroactive and provisional duties were prejudicial elements in these proposals. Developing countries would like the revised Anti-dumping Code to result in a reduction of the trade barrier and harassment effect of anti-dumping investigations, and to establish transparent and strict injury determination criteria, a fair methodology to calculate the margin of dumping, market-share and dumping-margin de minimis provisions and effective mechanisms for the review of anti-dumping decisions. Also, the Code should not itself become the source of renewed protectionism after the Uruguay Round.

104. On the issue of subsidies and countervailing measures, imbalances persisted between demands for stricter disciplines on measures that could be taken by developing countries in pursuit of their development and more flexible disciplines on internal subsidies applied by major developed countries. What was necessary was stricter disciplines on the use of countervailing measures so as to ensure that such measures were not used as instruments of trade harassment and protection. Appropriate definition of the scope of prohibited, actionable and non-actionable subsidies and specific incorporation of provisions relating to special and differential treatment for developing countries in these disciplines were called for. There should be no attempt to undermine or circumscribe whatever flexibility they currently had on the use of subsidies as legitimate instruments for economic development.

105. There were repeated proposals put forward by some developed countries for the creation of a small Ministerial Group to meet frequently and provide political guidance and inputs for the smooth and efficient functioning of

GATT. This was strongly opposed by developing countries who felt, on the basis of their past experience, that this would militate against democratic functioning of the GATT system.

106. In the negotiating group on dispute settlement, proposals had been put forward which sought to make the dispute settlement process completely automatic by putting in place an appellate mechanism which would seek to reduce considerably the role of contracting parties. While developing countries were deeply interested in making the dispute settlement process swift, fair and effective and in removing blockages, both in adoption and implementation of panel reports, they would like to maintain a strong and effective role for the Council in the modified dispute settlement procedures.

107. With regard to the new areas of TRIPS, TRIMs and services, he said that undue emphasis was placed by developed countries on obtaining far-reaching results in these areas. Developing countries were concerned that unbalanced results in these areas would have the effect of reducing the positive impact of foreign investment on development, impeding their access to technology and inhibiting the growth of their service industries and export capacities in such key area. There was also a general concern that the outcome in the new areas could prejudice development-friendly trade liberalization and expansion.

108. On TRIPs, he said that, while developed countries were attempting to achieve a comprehensive agreement on TRIPS based on upward harmonization and adoption of uniform worldwide standards on intellectual property rights protection with commitments of strict enforcement, developing countries were seeking to counter-balance these demands for strengthening the intellectual property rights of right-holders with stronger protection of the interests of society, the need for technological development and access to this, and the control of anti-competitive practices of right-holders. The accommodation of technological needs and public policy considerations by providing for flexibility in the assumption of substantive obligations by developing countries was an important prerequisite for a satisfactory outcome in this area. In regard to the mechanisms for the observance of obligations regarding intellectual property right protection, the role and competence of the national, legal and administrative systems had to be respected. The dispute settlement system might not allow for the possibility of retaliation in the area of trade in goods and the negotiations should take into consideration the work being done by WIPO in this connection. International implementation of the results of the negotiations remained one of the most controversial

elements. The decision in this respect, especially on questions not related to trade, should recognize the competence and guarantee the functions and rules of the relevant international bodies such as WIPO.

109. On TRIMs, he stated that the negotiations were characterized by a basic imbalance since, while seeking tighter disciplines for the investment measures of developing countries, developed countries took the opposite attitude towards disciplines in trade policy that affected investment policies such as subsidies, anti-dumping and countervailing measures, quantitive restrictions and other non-tariff measures. Most developed countries sought a prohibition approach to TRIMS instead of confining the consideration of these measures to that of trade restriction and distortion effects, as called for in the Punta del Este Declaration. The prohibition approach represented attempts to protect the security and increase the profit of foreign investment without reference to the interests of host countries. Developing countries sought to uphold their right to determine whether, to what extent and on what terms they would permit foreign investment because only then would they be able to ensure the maximum development impact of foreign investment and counter the anti-competitive practices of transnational corporations. Their rejection of the prohibition approach was therefore prompted by their wish to continue to use TRIMS for stimulating genuine industrialization and inducing transfer of technology, managing balance of payments and channelling domestic employment. In his view, this "effect oriented" case-by-case approach, which would also deal with the problem of restrictive business practices, would best serve the interests of genuine trade expansion and development of the developing countries.

110. As to trade in services, he pointed out that the negotiations on a multilateral framework had suffered a set-back. He emphasized that any efforts to resuscitate the negotiations could only be on the basis of an automatic and unconditional application of the MFN clause, and an agreement on a universal coverage of sectors to be included in the framework. The framework should also constitute a recognition of the basic asymmetry in the situation of services in developed and developing countries, because of which specific obligations would have to be included in the framework to ensure increased participation of developing countries in international trade in services, inter alia through measures aimed at strengthening their domestic service sectors, including developing-country conditions placed on access for foreign suppliers and provisions of effective and preferential market access

for service exports from developing countries. There should be no automatic right to market access, establishment and/or national treatment. Developing countries' commitments with respect to market access and national treatment would be confined to those sectors and subsectors where they would agree to specific concessions (the positive list) and that symmetry would be maintained between the treatment of movement of factors of production associated with the supply of services. Unless specific provisions elaborating these ideas were incorporated in the multilateral framework, it would merely become a device for consolidating the already dominant position of developed countries and their TNCs in the trade and production of services. The framework should instead be a dynamic instrument that would assist developing countries in developing core service sectors and establish a competitive position in international trade in services.

111. He also emphasized the importance of having a meaningful evaluation process as envisaged in Part I (G) of the Punta del Este Declaration. In his view, this would imply that not only sufficient time be provided between the evaluation of the package and its final adoption but also that whatever deficiencies were identified as a result of the evaluation should be made good and differential and more favourable treatment to developing countries strictly incorporated in every aspect of the final package. He recalled that this requirement of a purposive evaluation had been rightly reiterated in the closing statement of the Chairman of the Ministerial Meeting of the TNC in Brussels.

112. Referring to the concept of the Uruguay Round being a single undertaking, he said that this had been introduced at a very late stage in the negotiating process and it was tantamount to breach of good faith as this was not the basis on which the negotiations were conceived in the Punta del Este Declaration or conducted over the last four years. Whatever the outcome of the Uruguay Round, he held that it was desirable and indeed prudent to avoid an approach that would force developing countries to accept and implement, in the name of the Round being "a single undertaking", all the results of the Round or to opt out of the multilateral trading system. Provision of flexibility, not only in terms of the time derogation principle but also in absolute terms, should be available to developing countries so that they were not put in the position of having to accept obligations in some areas which were inconsistent with their developmental, financial and trade needs.

113. With regard to proposals made by some developed countries relating to institutional arrangements to implement the results of the Uruguay Round, especially in the new areas, he said that they were clearly not covered by the mandate. In his view, such institutional arrangements, as proposed, were limited in scope and not fully responsive to the needs of the international trading system, especially the developmental aspirations of developing countries, and could legitimize retaliation in the form of trade restrictions in response to developing-country policies on services, technology or foreign investment. Progress should be made towards establishing universal, comprehensive, development-oriented international trade arrangements in the United Nations, covering both trade liberalization and other issues which had a bearing on trade and development, including control of restrictive business practices, transfer of technology to developing countries, trade financing and international monetary policies having an impact on trade, etc.

114. As for UNCTAD's specific role in monitoring developments and issues in the Uruguay Round of particular concern to developing countries, he emphasized the continuation of the tradition of providing development inputs into the process of trade liberalization negotiations. UNCTAD had made a signal contribution in terms of providing technical assistance to developing countries participating in the Uruguay Round, and he expected such technical assistance to continue not only till the end of the Uruguay Round but also beyond, because there would be much that would still require further elaboration and understanding from the point of view of the implications of the outcome for the trade and development prospects of developing countries. Finally, he expected that, whatever the timeframe for the completion of the Uruguay Round, UNCTAD VIII should also be seized with these issues.